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Jobless Picture Bleaker Than It Looks

The worst news released so far during the current recession was the big jump in the unemployment rate in December. At 8.9 per cent of the labor force, it is just a shade below the postwar high of nine per cent recorded in 1975. What is more, there are signs pointing to further increases. Many manufacturers are still reducing the average workweek at their plants—a traditional precursor of more layoffs.

The unemployment rate for adult men did reach a postwar high in December—eight per cent. However, the hardship incurred by some households may have been easier to bear than in earlier recessions. The number of families with two or more incomes had increased to 55.3 per cent by the beginning of last year, from 46 per cent in 1960. What is more, over the past year, nearly two-thirds of the 1.5 million workers who entered the labor force were women, many trying to offset the loss of their husbands' earnings.

Ominously, the number of people out of work for more than five weeks rose to 5.4 million in December. This is the highest level in at least three decades and represents an increase of more than 25 per cent since July, 1981, when the nation just entered into recession. Furthermore, as is typical during economic downturns, the rise in the number of unemployed since July was due to stepped-up layoffs, rather than an increase in the number of persons who entered the labor force in search of work—such as the return of some previously discouraged workers. The number of those losing their jobs surged by more than 1.6 million during the five months ending last December, while the number of those entering the labor force—for the first time or coming back—grew by only 320,000.

Confirming the bleak outlook for the job market was the rise in the number of those workers who gave up looking for jobs completely and thus left the labor force. During the fourth quarter, these discouraged workers totaled 1.2 million—the highest number on record. Finally, the number of persons who were forced to work part-time for economic reasons because they could not find a full-time job or their hours in the current job were reduced, also set a record.

Global Prospects For 1982 . . .

The United States will not be able to look to the rest of the world for much assistance in recovering from the current recession. The members of the Organization for Economic Cooperation and Development (OECD), who consist of the 24 most developed nations of the free world, anticipate aggregate growth in real GNP of less than 1.5 per cent in 1982, about the same as in 1981. The less developed economies (LDCs), whose economic fortunes are largely tied to growth in the OECD nations, also cannot expect to be generators of world recovery.

The table illustrates the gradual erosion in real growth of several of the world's leading economies and the weak prospects for 1982. High interest rates and their consequences are a principal cause of the global slowdown. In response to inflationary pressures in the United States, the Federal Reserve Board introduced a tight monetary policy in early 1980 which raised interest rates to unprecedented levels. As a result, the dollar strengthened against other currencies.

GROWTH IN REAL GNP
(percent change from previous year)

	1979	1980	1981	1982
	actual		provisional	projected
West Germany	4.3	1.8	−0.5	1.5
France	3.5	1.6	0.1	2.0
Italy	4.9	4.0	−1.0	1.5
United Kingdom	1.4	−1.4	−2.1	1.0
Japan	5.6	4.2	4.0	4.5
United States	3.2	−0.2	1.8	−1.0

Source: IMF, OECD Economic Outlook, MHT Projections

In order to protect their exchange rates other countries were forced to introduce restrictive monetary measures as well. Consequently, there has been a deceleration in inflation rates in most countries but also a decline in growth rates. World

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trade, which is closely related to growth, has also suffered. The volume of world trade, which grew six per cent in 1979, increased by only 1.5 per cent in 1980 and probably showed even smaller growth in 1981. Indeed, some economists expect that when a firm figure for 1981 is available, it may show an absolute decline in real terms. For 1982, growth in the volume of world trade is expected to be about two per cent, most of which will occur in the second half of the year.

LDCs have been particularly hard hit. Prices for commodities, which account for about one-half of world trade, have fallen sharply for the past year and are not expected to grow much in 1982 because demand is expected to remain weak. The probable surpluses in the 1981/82 harvest season for sugar, coffee and cocoa will keep prices down and grain harvests are expected to be good for most traditional exporters, too. Oil prices will probably remain stable, however, benefitting importers and reducing the OPEC surplus.

Unemployment, which has been a major consequence of low growth and high interest rates (particularly affecting the cost of consumer credit), grew rapidly in 1981 and is expected to continue to grow well into 1982. It may reach ten per cent of the work force in Europe. For the OECD as a whole, there may be as many as 28 million people out of

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending 1/6/82	$ Change Since Week Ago	$ Change Since Year Ago
Reserve Bank Credit			
U.S. Gov'ts and Agencies			
Owned Outright & RPs	140.378	+ 1.600	+ 9.879
Loans to Depository Inst.	1.454	+ .571	+ .337
Float	3.536	– .104	– 2.163
Total Reserve Bank Credit	154.857	+ 1.515	+ 8.775
Treasury Deposits with Federal Reserve Banks	3.747	+ .835	+ .768
Currency Outside Banks	129.081	– .142	+ 6.158
Member Bank Reserves:			
Required	42.145	+ .114	+ 1.771
Excess (Deficiency)	.654	+ .182	– .010
Total Reserves Held	42.799	+ .296	+ 1.761
Net Borrowed Reserves	.741	+ .405	+ .400
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	96.079	+ .957	– 3.208

Monetary Aggregates †		% Change Since Three Months Ago*	% Change Since Year Ago
M1-B	450.2	+ 10.1‡	+ 6.6‡
M2 (December '81)	1,842.0	+ 12.4	+ 10.3
M3 (December '81)	2,187.1	+ 10.0	+ 11.3
L (September '81)	2,574.4	+ 11.4	+ 11.5

†Seasonally adjusted. *Seasonally adjusted annual rate. ‡Four-week moving average.

New York Money Market

Offering Rates 1/15/82	3 Months	6 Months	1 Year
‡U.S. Treasury Bills	11.80%	12.50%	12.55%
* Federal Agencies	12.85	13.90	13.55
* Project Notes—Taxfree (46% Taxable Equivalent)	11.57	13.43	NA
Negotiable Time CDs Manufacturers Hanover	Rates By Arrangement		
* Secondary Market—Prime	13.25	14.13	14.88

‡Finance Company Paper—Prime

5- 14 days	12.50%
15- 29 days	12.50
30- 59 days	12.38
60- 89 days	12.25
90-179 days	12.25
180-239 days	12.50
240-270 days	11.50

‡* Bankers' Acceptances

Feb.	12.30%
Mar.	12.55
Apr.	12.80
May	13.20
Jun.	13.30
Jul.	13.20

‡Industrial Paper—Prime

30- 89 days	12.38%
90-120 days	12.75

†Federal Funds Effective Rate 12.35%

‡Discount basis. * Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	3rd Q'81	$ 2,965	$ 2,886	$ 2,637
Gross National Product (1972 Dollars)*	3rd Q'81	$ 1,516	$ 1,510	$ 1,472
Percent Change, Annual Rate	3rd Q'81	1.4	– 1.6	2.4
Change in Consumer Prices (all urban consumers)*	Nov '81	6.0%	4.8%	13.2%
Change in Producer Prices*	Dec '81n	3.6%	6.0%	4.8%
Civilian Employment (Thousands of Persons)†	Dec '81	97,188	98,025	97,282
Unemployment as % of Civilian Labor Force†	Dec '81	8.9%	8.4%	7.4%
Personal Income*	Nov '81	$ 2,489	$ 2,475	$ 2,258
Leading Indicators Composite Index (1967=100)†	Nov '81	127.8	128.2	136.5
Industrial Production Index (1967=100) †	Dec '81n	143.3	146.4	150.4
Net Change in Consumer Installment Credit†	Nov '81n	$ 0.34	$ 1.01	$ 0.84
U.S. Merchandise Trade Balance †	Nov '81	–$ 3.40	–$ 4.19	–$ 1.15
Plant and Equipment Expenditures*	1st Q'82	$345.46(a)	$332.69(a)	$312.24
Private Housing Starts (Thousands of Units)*	Nov '81	871	864	1,550
New Construction Expenditures*	Nov '81	$ 230.3	$ 229.8	$ 234.3
Total Business Inventories†	Nov '81n	$ 515.2	$ 511.7	$ 474.9
Total Business Sales†	Nov '81n	$ 344.6	$ 345.3	$ 339.0

*Seasonally adjusted annual rate. †Seasonally adjusted. n-Newly reported figure. a-Anticipated.

work by the end of the year, about eight per cent of the total work force. The political and social pressures which these levels of unemployment may create could cause some governments to alter their monetary policies toward greater ease, hoping to stimulate growth and employment even at the risk of higher inflation. France appears already to have opted for this approach. On the other hand, inflation in the developed nations, currently running about 9.5 per cent, could be reduced to perhaps eight to 8.5 per cent for 1982 as a whole.

. . . Are Not All Gloomy

In spite of the many pessimistic aspects of the present global economic situation, the major European economies should post an improved performance in the latter half of 1982. Real growth in second-half 1982 could reach 2.5 per cent for the developed countries of Western Europe after a slow first half and performance is expected to accelerate in 1983. Much of the improvement in 1982 may come from increased domestic demand resulting from lower credit costs as well as deferred demand from the previous 18 months.

As demand grows, exports should improve as well, leading to gradual improvement worldwide. Already there is evidence in some countries that the process of recovery is beginning. A slowing of inflation, declining interest rates and a pickup in exports and

Short Term Paper Outstanding

(Millions of Dollars)

	Latest Week	Change Since Week Ago	Change Since Year Ago
Negotiable Time CD's Weekly Reporting Banks			
Nationwide (12/30/81)	137,514	+ 481	+21,313
New York City (12/30/81)	34,028	– 807	+ 5,379
Commercial Paper (12/30/81)	162,980	– 2,618	+41,383

Bank Loans

(Millions of Dollars)

Commercial and Industrial Loans

Weekly Reporting Large Commercial Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (12/30/81)	195,535	+ 2,728	+20,566
New York City (12/30/81)	56,225	+ 1,231	+ 4,471

Total Loans Gross Adjusted

	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (12/30/81)	471,234	+ 2,226	+36,542
New York City (12/30/81)	111,976	+ 768	+ 7,090

Financial Markets

	Friday 1/15/82	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	12.65%	+ .70	– 3.27
180-Day Bills†	14.15	+ .95	– 1.05
Longest Bills†	14.55	+ .88	+ .72
Recent Issues:			
13s 12/31/83	15.66	+ 1.58	
14 1/8s 12/31/85	15.23	+ .83	
14 1/4s 11/15/91	14.90	+ .50	
14s 11/15/11	14.48	+ .43	
Municipals:			
Bond Buyer–20 Bond Index* (1/14/82)	13.44%	+ .08	+ 3.87
Blue List Total ($ Million)	$ 841	– $201	+ $ 252
30-Day Visible Supply ($ Million)	$1,571	– $549	+ $ 303
Total	$2,412	– $750	+ $ 555
Corporates:			
Moody's Aa Composite (1/14/82)	15.70%	+ .05	+ 2.17
30-Day Visible Supply ($ Million)	$9,252	+ $260	+ $5,754
Stocks:			
Dow-Jones Averages:			
Industrials	847.60	– 18.93	– 125.69
Transportation	352.63	– 16.04	– 49.35
Utilities	104.18	– 3.50	– 9.04
65 Stocks	331.63	– 10.36	– 44.29
Standard and Poor's 500 Stocks	116.33	– 3.22	– 18.44
N.Y.S.E. Composite Index	87.41	– 1.95	– 9.92
N.Y.S.E. Avg. Daily Vol. for Week (000's)	47,456	+ 3,154	+ 4,602

* 46% Taxable equivalent 24.89%.

† Bond equivalent.

International Rates

EURODOLLAR DEPOSIT RATES (bid)	Friday 1/15/82	Week Ago
Overnight	12.50%	12.25%
1 month	13.44	13.13
3 month	14.06	13.63
6 month	14.81	14.56
1 year	15.06	14.56
EURODOLLAR BONDS		
Average Yield		
Medium Term (5 to 7 yrs.)	14.85%	14.85%
Long Term (7 to 15 yrs.)	15.20	15.20

FOREIGN EXCHANGE SPOT RATES

New York Opening (1/15/82)	U.S. $ Equivalent	Currency Per U.S. $
Belgium	.02556	39.13
Canada	.8386	1.1925
Denmark	.1331	7.5142
France	.1713	5.8385
Germany	.4349	2.2992
Italy	.0008120	1231.50
Japan	.004474	223.50
Mexico	.03785	26.42
Netherlands	.3972	2.5175
Switzerland	.5402	1.8513
U.K.	1.8733	.5338

export orders are signalling the change. The weakness of most currencies against the dollar has helped exports, particularly in West Germany, the United Kingdom and Japan, all of whose economies are heavily export-oriented. Although the dollar is expected to weaken somewhat on a trade-weighted basis in 1982 (helping U.S. exports), it is still expected to remain above the levels of 1979 and 1980. Thus, the terms of trade for the developed countries should come into better balance as 1982 progresses. This will be reflected in reduced trade and current account deficits for some developed countries and reduced surpluses for others. ■

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